City of Lafayette Staff Report

For: City Council

By: Tracy Robinson, Administrative Services Director

Date Written: **December 1, 2008**

Meeting Date: December 8, 2008

Subject: 5-Year Budget Trends

Introduction

Given the recent economic turmoil and uncertainty, staff has prepared three scenarios showing the effects of potential decreases in revenue combined with increasing expenses to show how the City's finances may be affected over the next five years.

Methodology

Staff used the following assumptions in annual percentage increases for revenue and expenses to model the three scenarios:

Exhibit 1
Scenario Descriptions

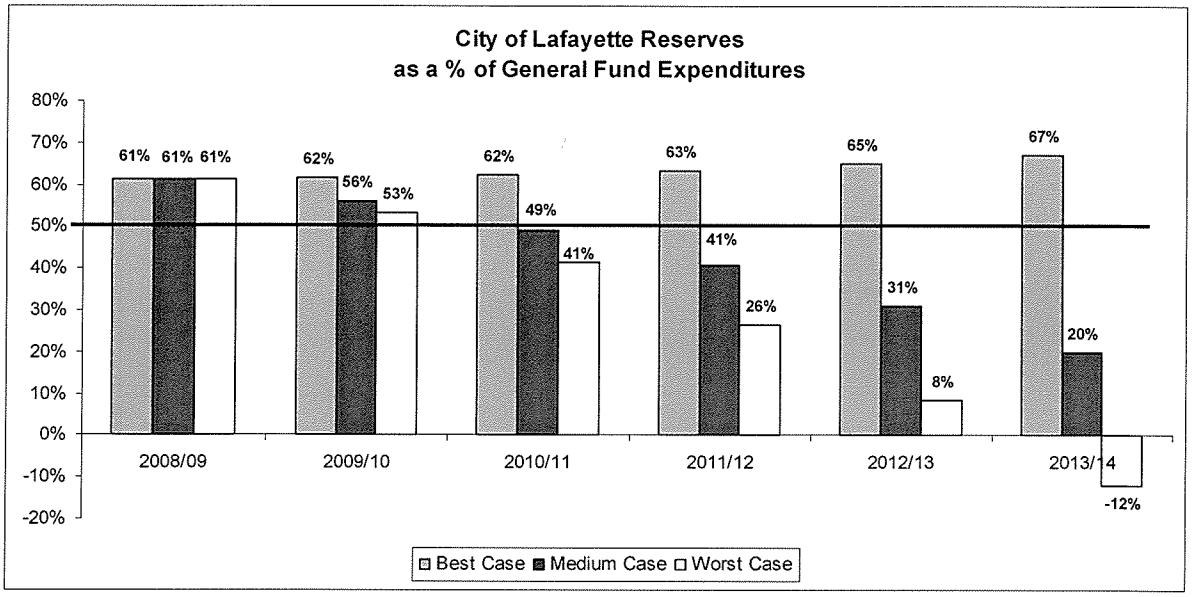
Revenue / Expense	Best Case	Medium Case	Worst Case
Property Tax	7%	5%	2%
Sales Tax	3%	0%	-1.5%
Investments / Other Revenue	5%	4%	3%
Base Expenses	5%	5%	7%
Transfers	0%	0%	0%
Police	5%	8%	8%

Each of these scenarios presume that the City will receive an additional $400,000 in revenue generated from the garbage impact fees starting in FY2009/10, and will transfer $1M annually to the Capital Improvement Program. All scenarios also assume that $1.4M in reserves are carried forward, thus allowing the City to meet the City Council's reserve standard. The "Best Case" scenario assumes, furthermore, that an additional form of revenue, such as a business license tax, that generates an additional $300,000 annually is implemented in FY2009/10.

9A 2 of 3

Results

Exhibit 2



As you can see, all of the scenarios indicate that the City can maintain its 50% reserve target through at least FY2009/10 and that -- even in the "Medium Case" -- the City should, with careful budgeting, be able to maintain the reserve standard for the next two fiscal years.

Note, however, that if the economic climate worsens significantly or the recession is protracted, the City's reserves will decline below the 50% target assuming expenses continue to rise consistent with recent trends.

Analysis

Property Tax

Property taxes are the largest single source of General Fund revenue for the City and, thus, declines in home sales represent the largest threat to the City's economic health. However, while home sales in Lafayette have slowed in recent months, the City has not seen the large number of foreclosures that have plagued other communities. In addition, the average assessed value of a residential property is $558,000 while the average sales price as of September 2008 was $1,128,714. This suggests that when older homes sell, their value to the property tax rolls often doubles.. An analysis of expected property tax increases given various rates of turnover shows that, even with slower sales, it is not unreasonable to expect at an annual increase of 5% for property tax revenue (including the statutory 2% increases):

Exhibit 3
Property Turnover Analysis

Rate	Parcels	AV Increase	% Increase
6%	523	$283,634,739	7.6%
5%	436	$236,452,669	6.7%
4%	349	$189,270,600	5.8%
3%	261	$141,546,208	4.8%

Sales Tax

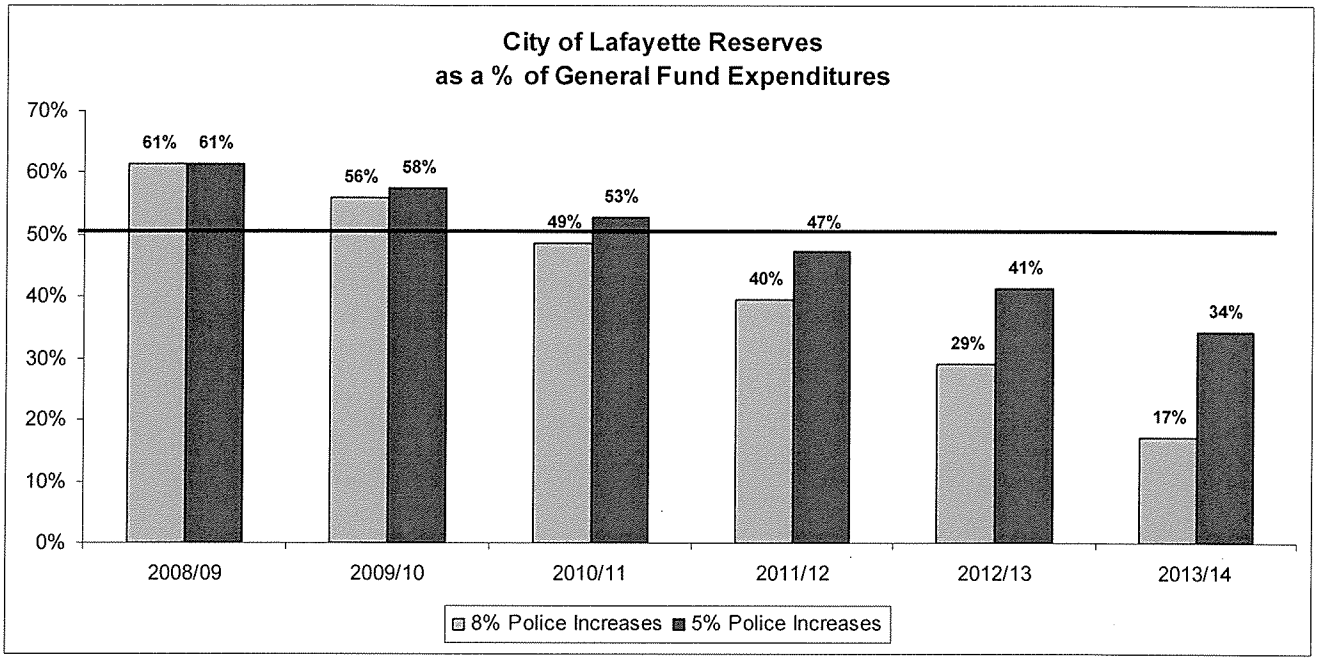
Sales taxes represent the next largest source of General Fund revenue and, given the current state of the economy, are perhaps the most vulnerable. However, since Lafayette does not have big box stores and does not rely on large capital acquisitions – such as automobile purchases -- for sales tax revenue, this revenue category does not fluctuate much with the economy. Over the last 10 years, sales tax receipts to Lafayette have increased, on average, about 2.7% annually. The most recent sales tax forecast from MBIA suggests that revenues will likely remain flat, which is the assumption used in the "Medium Case" analysis. Even so, changing the sales tax rates within this narrow margin does little to affect the overall analysis, at least for the first three years.

Police Expenses

Police expenses remain the single largest expense for the City representing 41% of the City's General Fund expenses (including the $300,000 transfer to the Supplemental Law Enforcement Fund). Over the last 10 years, police expenses have increased about 9% annually due, in part, to the addition of one sergeant, one additional deputy, and a police services assistant. If police costs increase 8% annually, they will double every nine years. This compares to an average annual increase of 5% for all other General Fund expenses over the same time period.

Given that revenues are definitely slowing, it will be important for the City to either slow increases in police costs before they overwhelm the General Fund or, alternatively, generate new dedicated funding sources to cover police services. Using the "Medium Case" scenario, lowering the increases in police expenses from 8% to 5% has a dramatic effect on the City's ability to meet the reserve target over the next five years even if the sales tax remains flat over the same period.

Exhibit 4



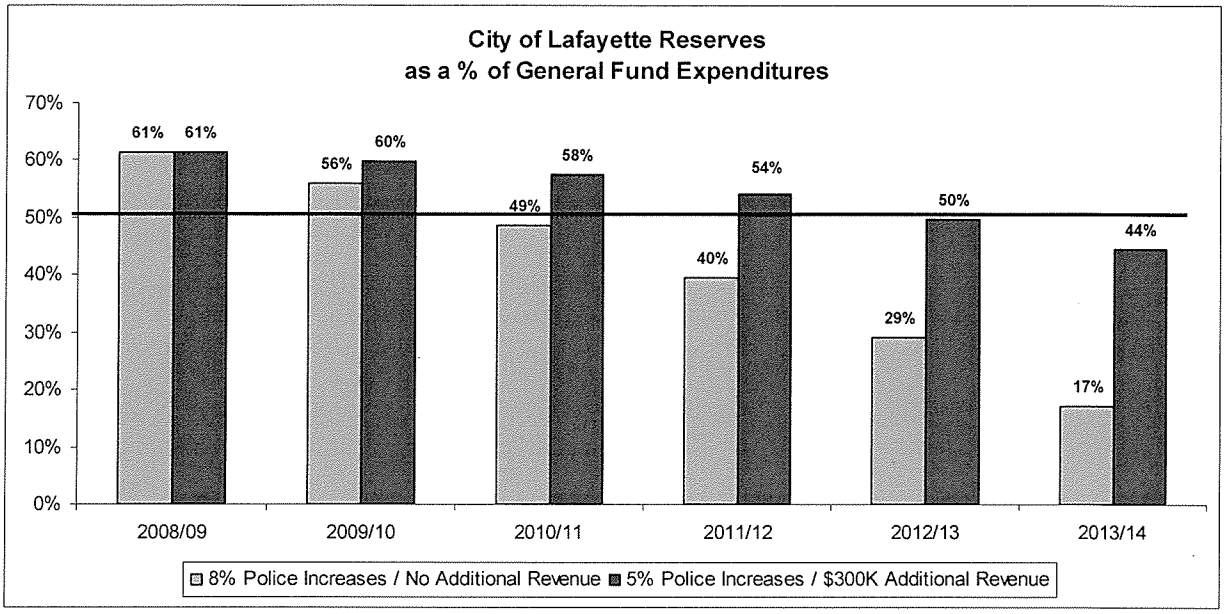
Additional Revenue

Note that the "Best Case" scenario includes additional revenue totaling $300,000 annually. This amount was chosen because it is roughly equal to the amount that the General Fund spends on downtown maintenance. The additional revenue could be captured in a number of ways:

- Institute a voter-approved business license tax
- Divert revenue from other sources (e.g. from the net parking funds)
- Decrease expenses
- A combination of one or more of the above

Even given the "Medium Case" scenario, an additional $300K in revenue combined with only a 5% increase in police expenses, produces a dramatic positive effect on the trend:

Exhibit 5



Conclusions

There are a number of unknown factors that will affect the City's finances over the next 5 years, most ominously, perhaps, being the declining economy and difficult-to-control police expenditures. However, given the City's conservative fiscal policies to date, Lafayette is in a good position to weather at least two years of a sluggish economy without significantly cutting services. Staff's analysis in Chart A, above, suggests that the "Medium Case" scenario is the most likely over the next 2-3 years. Although the situation is not dire at this point, a prolonged downturn in the economy lasting more than three years will have a significant impact on the City's ability to maintain services and cash reserves. Therefore, staff recommends the following actions:

- Do not spend down current $1.4M in cash over reserve target.
- Work aggressively to lower annual increases in police expenses.
- Continue to find ways to reduce expenses wherever possible without compromising service.
- Consider ways to add additional revenue sources sooner rather than later.

BEST CASE

		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
7%	prop tax	3,403	3,641	3,896	4,169	4,461	4,773
3%	sales tax	2,603	2,681	2,762	2,845	2,930	3,018
5%	investment earnings	600	630	662	695	729	766
5%	other revenue	4,912	5,158	5,416	5,687	5,971	6,270
add'l rev	garbage		400	400	400	400	400
add'l rev	business license		300	300	300	300	300
	TOTAL REVENUE	11,519	12,811	13,436	14,095	14,791	15,526
5%	Base Expenses	5,930	6,227	6,538	6,865	7,208	7,568
0%	Transfers	1,540	1,540	1,540	1,540	1,540	1,540
5%	Police	4,471	4,695	4,929	5,176	5,435	5,706
	TOTAL EXPENSES	11,941	12,461	13,007	13,581	14,183	14,815
	Fund Balance Change	N/A	$350	$428	$514	$609	$712
	Reserve	$7,325	$7,674	$8,103	$8,617	$9,226	$9,938
	Reserve %	**61%**	**62%**	**62%**	**63%**	**65%**	**67%**

MEDIUM CASE

		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
5%	prop tax	3,403	3,573	3,752	3,940	4,137	4,343
0%	sales tax	2,603	2,603	2,603	2,603	2,603	2,603
4%	investment earnings	600	624	649	675	702	730
4%	other revenue	4,912	5,109	5,313	5,526	5,747	5,977
add'l rev	garbage	-	400	400	400	400	400
add'l rev	business license	-		-	-	-	-
	TOTAL REVENUE	11,519	12,310	12,717	13,144	13,589	14,053
5%	Base Expenses	5,930	6,227	6,538	6,865	7,208	7,568
0%	Transfers	1,540	1,540	1,540	1,540	1,540	1,540
8%	Police	4,471	4,829	5,215	5,632	6,083	6,569
	TOTAL EXPENSES	11,941	12,595	13,293	14,037	14,831	15,678
	Fund Balance Change	N/A	($286)	($575)	($893)	($1,242)	($1,624)
	Reserve	$7,325	$7,039	$6,464	$5,570	$4,328	$2,704
	Reserve %	**61%**	**56%**	**49%**	**40%**	**29%**	**17%**

WORST CASE

		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
2%	prop tax	3,403	3,471	3,541	3,612	3,684	3,757
-1.5%	sales tax	2,603	2,564	2,526	2,488	2,451	2,414
3%	investment earnings	600	618	637	656	675	696
3%	other revenue	4,912	5,060	5,211	5,368	5,529	5,695
add'l rev	garbage		400	400	400	400	400
add'l rev	business license			-	-	-	-
	TOTAL REVENUE	11,519	12,113	12,315	12,523	12,739	12,962
7%	Base Expenses	5,930	6,345	6,789	7,265	7,773	8,317
0%	Transfers	1,540	1,540	1,540	1,540	1,540	1,540
8%	Police	4,471	4,829	5,215	5,632	6,083	6,569
	TOTAL EXPENSES	11,941	12,714	13,544	14,437	15,396	16,427
	Fund Balance Change	N/A	($601)	($1,230)	($1,914)	($2,657)	($3,465)
	Reserve	$7,325	$6,724	$5,494	$3,580	$923	($2,542)
	Reserve %	**61%**	**53%**	**41%**	**25%**	**6%**	**-15%**

BEFORE THE CITY COUNCIL OF THE CITY OF LAFAYETTE
IN THE MATTER OF:

Adopting the Final Budget/Workplan; Appropriating Revenue and Expenses; Confirming the City's Investment Policy; Determining the Appropriation Limit for Fiscal Year 2008-2009; Determining Fees for all City services and Authorizing Transfers and Expenditures including the 2008 Capital Improvement Program	)	RESOLUTION 2008-055

WHEREAS, pursuant to Title II, Chapter 2 of the Municipal Code of the City of Lafayette, the City Manager has prepared and submitted a proposed budget describing estimated income and expenses for the fiscal year beginning July 1, 2008 and continuing through June 30, 2009; and

WHEREAS, the City Council conducted a public hearing on June 9, 2008 and budget workshop on June 9, 2008 and

WHEREAS, the City Council has reviewed the Final Budget and Workplan for fiscal 2008-2009.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lafayette does hereby:

1. Adopt the Final Budget and Workplan;

2. Appropriates the amounts indicated in the Final 2008-2009 Budget as Amended in Exhibit A;

3. Determines that the appropriations subject to limitation as set forth in SB 1352 are in compliance with the City's appropriations limit;

4. Confirms the City's investment policy as indicated in the Budget and Workplan and as required by State law;

5. Determines new fees for all City services;

6. Authorizes the City Manager to transfer and spend these appropriations from the various program accounts as necessary to implement the service policies of the City Council;

BE IT FURTHER RESOLVED THAT modifications to the Budget/Workplan shall be allowed only upon the approval of the City Council or the City Manager, as enumerated herein. The City Council shall approve, in advance, the following modifications:

1. Changes to established levels of service;

2. Any change in the number of regular positions as defined by the City's adopted Personnel Rules;

3. Any increase in the total amount for Personnel Services, Operation and Maintenance, and Capital Outlay, allocated for each program;

4. The purchase of any capital outlay item which exceeds $10,000 in value and which is not itemized in the Capital Outlay accounts.

The City Manager shall approve all other modifications not specifically reserved for the City Council. The City Manager shall approve all transfers of $25,000 or less between the individual Operation and Maintenance and Capital Outlay accounts of each departmental budget.

PASSED AND ADOPTED by the City Council of the City of Lafayette at a regular meeting of said Council on December 8, 2008 by the following vote to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

APPROVED:

_____
Mayor

ATTEST:

_____
Joanne Robbins, City Clerk

BEFORE THE LAFAYETTE REDEVELOPMENT AGENCY
IN THE MATTER OF:

Adopting the final Budget/Workplan;	)	RESOLUTION R2008-05
Appropriating Revenue and Expenses;	)	
Confirming the Investment Policy;	)	
for Fiscal Year 2008-2009; and Authorizing	)	
Transfers and Expenditures	)	

WHEREAS, a proposed budget has been prepared describing estimated income and expenses for the fiscal year beginning July 1, 2008 and continuing through June 30, 2009; and

WHEREAS, the Agency conducted a public hearing on this budget on June 9, 2008; and

WHEREAS, the Agency Board has reviewed the Final Budget and Workplan for fiscal 2008-2009.

NOW, THEREFORE, BE IT RESOLVED that the Board of the Lafayette Redevelopment Agency does hereby:

1. Adopt the Proposed Budget and Workplan for 2008-2009;

2. Appropriates the amounts indicated in the Final 2008-2009 Budget;

3. Confirms the investment policy as indicated in the Budget and Workplan;

5. Authorizes the expenditure of these appropriations as necessary to implement the service policies of the Agency;

BE IT FURTHER RESOLVED THAT modifications to the Budget/Workplan shall be allowed only upon the approval of the Board or the Executive Director, as enumerated herein. The Board shall approve, in advance, the following modifications:

1. Changes to established levels of service;

2. Any increase in the total amount for Personnel Services, Operation and Maintenance, and Capital Outlay, allocated;

3. The purchase of any capital outlay item which exceeds $10,000 in value and which is not itemized in the Capital Outlay accounts.

The Executive Director shall approve all other modifications not specifically reserved for the Board. The Executive Director shall approve all transfers of $25,000 or less between the individual Operation and Maintenance and Capital Outlay accounts.

PASSED AND ADOPTED by the Board of the Lafayette Redevelopment Agency at a regular meeting of said Board on December 8, 2008, by the following vote to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

APPROVED:

_____
Board Chair

ATTEST:

_____
Joanne Robbins, Secretary